



Mercenary Alert: A Peruvian Prospector Par Excellence

A Special Alert Musing from Mickey the Mercenary Geologist

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In my international travels spanning more than 20 years, I've spent almost as many field days in Peru as any other country. My first visit was in early 1997 as Chief Geologist for a couple of Canadian juniors. I resided half time in Miraflores for a couple of years while the bottom fell out of the post Bre-X market. In addition, I made a few 20 to 40 day forays to Peru from 2001-2004.

Peru is a fascinating country, in its geography, its geology, and its people and their convoluted culture. It presents a challenging work environment because of remoteness and lack of infrastructure. Most of the best prospects are located at high altitude in difficult mountainous terrain.

It's been almost 20 years since Newmont and Buenaventura started development of Yanacocha in Cajamarca and over 15 years since Arequipa Resources discovered the giant Pierina gold deposit near Huaraz that was gobbled up by Barrick.

Despite all the gold exploration and mining development that has occurred since Fujimori made Peru safe for citizens and *extranjeros* in the early 1990s, parts of the country with strong mineral potential still remain unexplored. The country's geographical challenges are probably the main reason for this. Simply put, it takes longer *to get there* than any other place I've ever worked.

As a rule of thumb, I allow five days of round trip travel from Albuquerque to visit any project in Peru. Note this does not include any time spent on the ground for evaluation.

Despite years of intense exploration, there are major base and precious and metal discoveries still being made in the country and, in my opinion will continue to be. Most reconnaissance programs for gold deposits have been conducted in the northern half of Peru where the large mines occur. Other prospective areas remain underexplored, particularly in the far south.

Four of the world's largest copper-molybdenum mines occur in southern Peru: Cerro Verde, Cuajone, Quelleveco, and Toquepala. Historically the departments of Arequipa, Moquegua, and Tacna have been explored for giant porphyry copper-moly deposits and not for gold and iron.

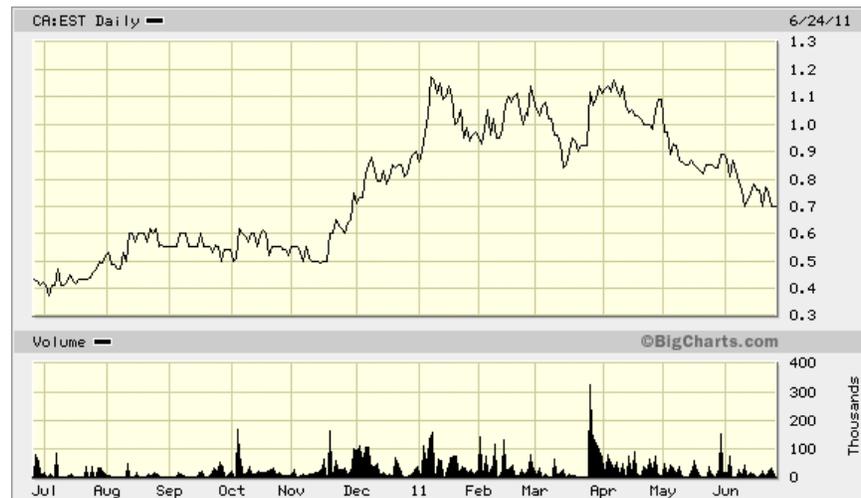
And that's where our story starts:

[Estrella Gold Corp \(EST.V\)](#) is a relatively new company that rose from the ashes of another failed junior explorer in late 2009. Its metamorphosis included a new President, a share rollback, a different business model, a name change, a revamped Board of Directors, a new Vice President of Exploration, and two strategic groups of investors that filled three modest financings during the past year and a half.

I mentioned Estrella Gold to free email subscribers in an alert on prospect generators early this year ([Mercenary Alert, January 7, 2011](#)). Estrella had closed at 97 cents the previous day and hit its yearly high of \$1.24 two days later. It's a way better deal now.

With exception of the original founders who remain as major shareholders, Estrella bears little resemblance to its previous incarnation.

It has a low number of shares outstanding at 17.3 million, 2.3 million options at 60c to \$5.00, 1.63 million out-of-the-money warrants at \$1.20 that will expire in September of this year, 4.6 million warrants at strike prices from 60 to 80 cents that expire from November 2011 until July 2012, and 1.3 million at \$1.20 that expire in July 2012. Insiders control a healthy 23% of the shares and the retail public float constitutes the remainder, although a significant number of those shares are in "strong hands".



The one year chart shows the yearly low of 38 cents in early July during 2010's summer lull. From mid-August to mid November the stock was range-bound in the 50-60 cent range. At that time, EST completed two small financings at 50c that positioned some strategic investors, many of whom had participated in a previous financing at 80 cents a year earlier. This was followed in mid-January by another small private placement at 80 cents. The three financings resulted in a significant percentage of shares controlled by groups who are committed to the long-term future of the company.

Estrella peaked again at \$1.18 in late March after being recommended by a Latin American-centric newsletter writer and then traded in the 90-1.15 cent range until early May. At that time geopolitical concerns preceding the presidential election in Peru, the eventual election of left-wing military man Ollanta Humala, a correction in most commodities, and junior resource sector weakness have resulted in falling equity values in all stocks with exposure in the country.

Estrella hit a six month low of 70 cents last week amid market indifference and currently is trading in the low to mid-70 cent range on little volume. It has a market capitalization of \$12 million and a working capital position of \$1.2 million. The company recently announced a 6.2 million share financing at 65

cents for \$4.0 million with a full warrant attached. If the warrants are exercised in 12 months, dilution will be 6.2 million shares but with another \$7.3 million in the bank.

Now let's review the company's principals:

Chairman of the Board Bernie Kraft is the company's founder, is also a director of Agnico-Eagle and St. Andrews Goldfields and along with his son, Director Michael Kraft, controls a major share position.

President and Master's degreed geologist Keith Laskowski is the main reason I am involved with Estrella. Keith was responsible for Eurasian Minerals' early entry into Haiti in 2007. Eurasian was one of my successful picks at \$1.32 in June 2009; it went to \$2.88 in less than six months, and hit \$3.88 in January of this year. We first met while visiting its Haitian projects two years ago. Keith has over 30 years experience as an economic geologist including a successful tenure with Newmont in North American and the Caribbean.

Other officers and directors include attorney Gregory Harris, CFO Khurram Qureshi, Lima-based mining attorney Fernando Pickmann, and geologist Donald Taylor.

The technical team is led by Vice President of Exploration Stan Myers who has a Master's degree in Geology, 23 years of experience mostly in Latin America, and a successful tenure with Newmont at Yanacocha.

The company's main man, Keith Laskowski and his business plan first attracted me to the company. He joined Estrella in mid-2009, first as a director then as President.

Beginning in 1998, Keith worked for a private investor that funded development of a regional exploration database in the altiplano of southern Peru. This state-of-the-art package covering the country south of the 16th parallel was generated by a crack team of geologists and resulted in acquisition of four projects. In 2004 the entire package was sold to Estrella's predecessor company but it sat idle until Laskowski joined the team two years ago.

Estrella's business plan is to implement a prospect generator/joint venture model in southern Peru and it currently operates two generative exploration programs:

In February it established a strategic alliance with Cliffs Natural Resources to explore for iron oxide-copper-gold deposits. Cliffs is funding the program at a minimum of \$400,000 per year for two years. Already the alliance has staked 10 new properties that are held jointly and undergoing initial prospecting and evaluation.

In an independent generative program, Estrella is exploring for epithermal volcanic-hosted gold deposits with targets identified from the proprietary regional data base. In 2010 the company acquired four new properties that are under initial evaluation: Yanque, Sense, Isy, and La Lucha.

There is much more to Estrella Gold than its southern Peru reconnaissance programs. It holds properties that would constitute flagship projects for the average junior and these are or soon will be available for joint-venture:

Colpayoc is located 12 km from Newmont-Buenaventura's Yanacocha mine in northern Peru, which produced 1.5 million ounces of gold in 2010. It has a small 43-101 inferred gold resource in the Daylight

zone and a high grade silver occurrence in the Cerro Rico zone. The two km area between Daylight and Cerro Rico contains additional undrilled targets. Estrella has obtained a long-term access agreement with the local community and eight core holes totaling 1800 meters are planned for early July. After drilling and assays are received, EST will solicit joint-venture offers for the project.

Trol is a mesothermal gold-silver project that contains a small historic resource in southern Chile. The project has good infrastructure with a road and the nearby port of Valdivia. It is drill-ready with a 2600 m by 400 m gold-in-soil anomaly.

La Estrella is located in central Peru and is an epithermal silver-gold play with significant drill intercepts. Thirty-three drill holes have defined a tabular zone 500 m by 80 to 90m thick that has been tested to 400 m down dip. Mineralization is open along strike and down dip.

Cerro Cori in southern Peru is a huge high sulfidation alteration system covering over 25 square km. It was formerly joint ventured to Southern Peru Copper. Nine drill holes include an intercept of 24 m at 0.58% Cu and there are untested drill targets. A +200 m thick surficial blanket of >10% sulfur could be economically important.

Ccello Ccello and La Tola in southern Peru contain a large area of epithermal/porphyry-style alteration and mineralization and comprise a contiguous claim block covering 70 sq km. Ccello Ccello is interpreted to be a high level, high sulfidation system related to structurally controlled gold-silver mineralization at La Tola. In 2004 Newmont spent US\$2 million on extensive geophysical coverage and drilled 18 reverse circulation holes at La Tola, some with significant intercepts.

Estrella Gold has two projects currently joint-ventured to other companies:

Pucarana is a gold-silver project vended to Esperanza Silver on a 60% earn-in. It is located in the Orcopampa district of southern Peru and is eight km and 15 km respectively from two operating mines. Pucarana is a high sulfidation epithermal gold-silver play similar to the nearby Chipmo mine of Buenaventura that produced 290,000 oz of gold in 2010. Esperanza recently completed an initial drill program.

Pampa Porama is an iron oxide-copper-gold project optioned to Cliffs Natural Resources, which can earn 80% by completing a feasibility study. It is located along the Marcona-Mina Justa trend in andesite volcanic terrane of the southern Peru Coastal Batholith. The property has numerous copper –gold-hematite shows and regional structures that converge in a target area of post-mineral gravel cover.

Estrella is property-rich in Peru and well-positioned to become a successful prospect generator. Recently it commenced a regional exploration effort in the Dominican Republic and applied for concessions totaling over 170 sq km.



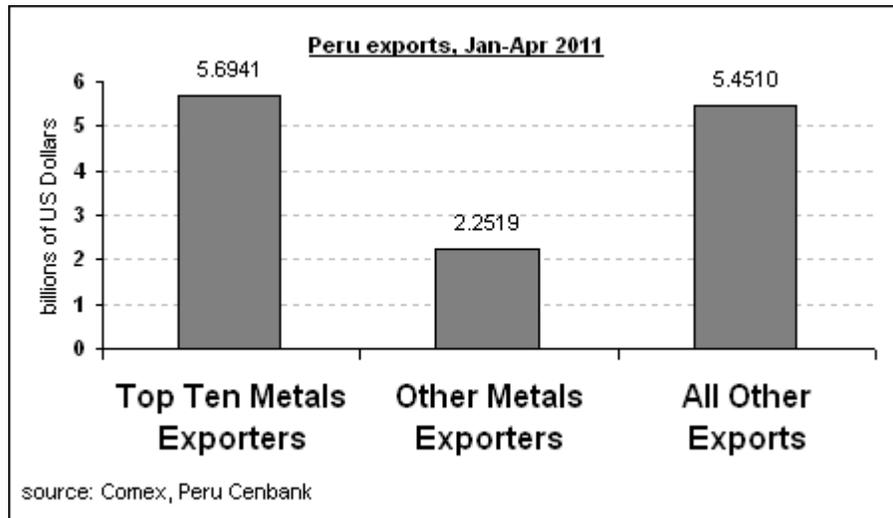
Estrella Gold Properties in Peru and Chile

Estrella Gold Corp has a tightly held share structure with significant insider holdings and strategic investors, is led by a geologist with previous success as a prospect generator, and holds a stable of good projects in Peru available for joint venture. It will be well-financed to execute its business plan with the recently announced \$4.0 million private placement. These funds also will be used to drill Collpayoc and accelerate property payments.

The recent election of Ollanta Humala, an avowed military leftist as President of Peru has negatively affected market valuations for all companies operating in the country. Since entering the run-off against

Keiko Fujimori and winning the election in early June, Humala has softened his former rhetoric, likely because he realizes the coalition legislature will not accept a hard-core socialist agenda.

I expect that the mining industry will be forced to accept a higher taxation and royalty regime to pay for Humala's ambitious social programs. However, the economy of Peru is very dependent on a healthy mining business since almost 60% of its exports are mineral products. In my opinion, the last thing Peru's leaders will allow is significant harm to the mining industry, its long-term domestic partner (a.k.a. sugar daddy):



[Chart Compliments of IncaKolaNews](#)

Estrella Gold Corp meets all my criteria for speculation: Share structure, people, projects, and undervalue with respect to its prospector generator peers. Assuming commodity markets and global economics remain strong, I think Estrella has a very good chance of doubling in 12 months or less.

I have participated in three private placements in the company since it reincarnated in late 2009. I will invest in the current placement. My cost basis is about the current trading level. EST is a sponsor of my website. My opinions are biased.

“Do your own due diligence dudes and dudettes”, says [Otto Rock](#). I agree with that take...

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of

New Mexico. Mickey has over 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 24 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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